IGNORED NO MORE

We take no great pleasure watching the turmoil in the markets over the past week. But, we'll remind readers that such tumult could have been expected. And, in fact, was anticipated by us and others who operate with an investment methodology that's focused as much or more on risk as on return. Markets often can avoid accurate consideration of fundamentals for only so long. And the longer they do, the greater the dislocation when catching up...especially when the correction is negative. Hence the sea of red we are now crossing.

Fortunately, in our view all of our portfolios are well positioned. For too long, the equity markets have been running on the notion that poorly implemented policies would somehow produce organic economic growth. As we have tried to explain over the past few months, they cannot. Even today as we write this note we have witnessed the equity markets snap back violently as European policymakers pile on the absurd. The economic reality will continue to inflict damage throughout the equity space. A QE3 may be in the offing, but as with QE1-2 the 'benefit' will prove an only temporary phenomenon and will thereafter fail to produce any meaningfully positive contribution to economic health and growth.

We'll remind readers that we believe we had prepared our portfolios for these latest market moves. Some have argued we did so far too early. Were we hypertacticians, such arguments might be considered appropriate. However, given our commentary over the past year, with its emphases both on our investment methodology and an evolving take on market risk and fundamentals, such a relatively conservative stance should have been considered appropriate. Especially in the context of the past month, we believe it was and remains so.

continued

We highlight our prior stance, as we can already hear the calls to reenter the equity markets. Given the current state of increasing volatility, deteriorating market fundamentals, worsening sovereign solvency contagion in the Euro area, at best mixed U.S. macroeconomic measures and exasperating political theater we're in no hurry (never are) to increase portfolio risk.

Indeed, many will be surprised, we bet, to hear that through the past month, the valuation trends in many equity markets have not much improved, and in fact have broadly stabilized or even weakened. With the plunge this week, valuations have, however, made a shift back to more favorable readings. Please read 'more favorable'...it's a relative shift, not necessarily broadly positive in an absolute sense. Still, taken together with the risk of continued whipsaw activity, we remain disinclined to add equity exposure in our Rotation portfolios or increase equity exposure in the Risk-Based portfolios. Fundamentals reign and we will tactically react to manage risk appropriately. Please rest assured that we at Innealta are well prepared to take advantage of impending investment opportunities.

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